

**REPORT OF THE AUDIT OF THE
FORMER MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through January 5, 2011**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through January 5, 2011**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the former Magoffin County Sheriff for the period April 16, 2010 through January 5, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$1,775,606 for the districts for 2010 taxes, retaining commissions of \$73,738 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$1,711,272 to the districts for 2010 taxes. Refunds of \$9,404 are due to the former Sheriff from a taxing district.

Report Comment:

2010-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Charles E. Hardin, Magoffin County Judge/Executive

Honorable Carson Montgomery, Magoffin County Sheriff

Honorable Randall Jordan, Former Magoffin County Sheriff

Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the former Magoffin County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through January 5, 2011. This tax settlement is the responsibility of the former Magoffin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Magoffin County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through January 5, 2011, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Charles E. Hardin, Magoffin County Judge/Executive

Honorable Carson Montgomery, Magoffin County Sheriff

Honorable Randall Jordan, Former Magoffin County Sheriff

Members of the Magoffin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2011 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

December 19, 2011

MAGOFFIN COUNTY
 RANDALL JORDAN, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through January 5, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 537,665	\$ 342,993	\$ 717,505	\$ 226,190
Tangible Personal Property	269,455	150,965	339,671	363,559
Fire Protection	2,960			
Franchise Taxes	94,223	53,071	119,025	
Oil and Gas Property Taxes	50,856	32,442	67,866	21,394
Adjusted to Sheriff's Receipt	(389)	(145)	(302)	(111)
Gross Chargeable to Sheriff	954,770	579,326	1,243,765	611,032
<u>Credits</u>				
Exonerations	5,186	3,307	6,918	2,181
Discounts	10,276	6,232	13,281	4,790
Transfers:				
Real Estate	186,428	118,345	247,566	78,044
Tangible Personal Property	191,477	107,277	241,374	278,717
Gas & Oil	29,964	19,115	39,986	12,605
Franchise Taxes	3,594	2,064	4,560	
Total Credits	426,925	256,340	553,685	376,337
Taxes Collected	527,845	322,986	690,080	234,695
Less: Commissions *	22,433	13,727	27,603	9,975
Taxes Due	505,412	309,259	662,477	224,720
Taxes Paid	514,816	309,259	662,477	224,720
Refund Due Sheriff				
as of Completion of Audit	\$ (9,404)	\$ 0	\$ 0	\$ 0

* Commissions:

4.25% on \$ 1,085,526
 4% on \$ 690,080

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

January 5, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Magoffin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Magoffin County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of January 5, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 24, 2010 through January 5, 2011.

Note 4. Interest Income

The former Magoffin County Sheriff earned \$48 as interest income on 2010 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles E. Hardin, Magoffin County Judge/Executive
Honorable Carson Montgomery, Magoffin County Sheriff
Honorable Randall Jordan, Former Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Magoffin County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through January 5, 2011, and have issued our report thereon dated December 19, 2011. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the former Magoffin County Sheriff's office was responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the former Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Magoffin County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through January 5, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Magoffin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

December 19, 2011

COMMENT AND RECOMMENDATION

MAGOFFIN COUNTY
RANDALL JORDAN, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2010 Through January 5, 2011

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office lacked adequate segregation of duties for receipts and disbursements. The bookkeeper collected and deposited all tax receipts, recorded all tax transactions, prepared the monthly tax reports, prepared all checks for tax payments, and reconciled the bank account. Good internal controls dictate the same employee should not be handling receipts and disbursements, recording in the ledgers, and preparing monthly reports. The former Sheriff should have offset the lack of adequate segregation of duties by implementing compensating controls such as periodically comparing the daily deposit to the daily checkout and the receipts ledger, reconciling any differences. In addition comparisons of the monthly reports to the receipts and disbursements ledgers for accuracy would have helped offset the lack of adequate segregation of duties. Initialing and dating the bank deposit, daily checkout sheet, receipts and disbursements ledgers, and reports would have documented this review.

Former Sheriff's Response: None.

